EXHIBIT NO.

C-28-2

A PRESENTATION
TO THE

ROYAL COMMISSION

ON

ENERGY

CANADIAN-MONTANA PIPE LINE COMPANY
CALGARY, ALBERTA
FEBRUARY 20, 1958

EXHIBIT NO.________

A Presentation

To The

ROYAL COMMISSION
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CANADIAN-MONTANA PIPE LINE COMPANY
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Introduction

The brief being presented to your Commission has two separate and distinct parts insofar as our export of gas from Canada is concerned:

First, it will deal with the export of gas to Montana from the Pakowki Lake region in the southeastern part of Alberta since February 1952 and in the future; and

Second, with the proposed export of gas from a point on the southwestern border of Alberta under application of the Alberta and Southern Gas Co., Ltd., now pending before the Alberta Oil and Gas Conservation Board.

We understand that the essential data on gas reserves, facilities and other pertinent information relating to this second part are being submitted in the brief of Alberta and Southern Gas Co., Ltd. It is our intention to supplement such information to the extent of confirming the existence of the contractual relationship between Canadian-Montana Pipe Line Company and Alberta and Southern Gas Co., Ltd., and of showing the market requirements in Montana and necessity for the gas purchased from this source of supply.

Alberta, British Columbia Relationships With Montana Are Friendly and Mutually Beneficial

The northern border of Montana, extending for more than 550 miles, adjoins the Provinces of Saskatchewan, Alberta and British Columbia. Past and present relationships between the Provinces and Montana have been both pleasant and mutually beneficial. Some examples of this inter-relationship are:

Consolidated Mining and Smelting Company is currently importing to Trail, British Columbia, phosphate rock produced by its subsidiary, Montana Phosphate Company at Garrison, Montana.

The Simplot Company is shipping phosphate rock from its Montana operations to the Northwest Nitrochemical Plant at Medicine Hat, Alberta.

We are advised that North American Utilities Corporation, a Montreal organization, is investigating the economics of processing a Montana source of iron ore for shipment to and use in a steel plant operation in Alberta.

During the period 1934 to 1937 when crude oil production in Alberta was inadequate, The Montana Power Company sold 1,181,000 barrels of crude oil from its Cut Bank production to British American Oil Company in Alberta.

Last year when B. C. Electric Company was in need of additional electrical energy due to poor water conditions in British Columbia, The Montana Power Company supplied 81,640,000 kilowatt hours, with a peak demand of 40,000 KW, for a period of several months.

The towns of Coutts and Milk River, Alberta, remote from gas sources in the Province, have been receiving natural gas supplied from northern Montana fields.

Canadian-Montana Pipe Line Company - Canadian-Montana Gas Company Limited

Canadian-Montana Pipe Line Company and Canadian-Montana Gas Company Limited are wholly-owned subsidiaries of The Montana Power Company. The Pipe Line Company owns and operates approximately 18 miles of 16" transmission line extending from a point near the Pendant d'Oreille, Alberta camp to a point of connection with The Montana Power Company system at the International Border.

The Canadian-Montana Gas Company Limited owns and operates the production, gathering, dehydration, compression and other operating properties in the Pendant d'Oreille, Manyberries, Smith Coulee, Black Butte and Comrey fields in the Pakowki Lake areas. This company holds leases and gas purchase rights on approximately 165,000 acres within

It [illegible] that [illegible] natural organizations, [illegible] a Montana source of [illegible] which operation is [illegible].

During the period [illegible] Alberta [illegible] was [illegible] of [illegible] Canadian [illegible] to [illegible].

Last year [illegible] The Montana [illegible] a peak demand of [illegible].

The supply of [illegible] in the Province [illegible] from northern Montana fields.

Canadian-Montana Pipe Line Company [illegible]

Canadian-Montana Pipe Line Company [illegible] are wholly-owned subsidiaries of the Montana Power [illegible] and operates approximately [illegible] miles of [illegible] a point near the Montana [illegible], Alberta [illegible] Montana Power Company system at the [illegible].

The Canadian-Montana Gas Company Limited [illegible], [illegible], Black [illegible] which [illegible].

the boundaries of these five fields. The gathering line system connecting 31 wells owned by the Company and 4 wells of independent producers, consists of 113 miles of lines ranging from 2" to 12" diameter. Other facilities owned include an 1100 HP compressor station, measuring stations, dehydration units and two field camps at Pendant d'Oreille and Manyberries.

Practically all of the material required in the installation of the above-mentioned facilities has been purchased through Canadian suppliers and construction has been carried out through Canadian contractors. The employment of Canadian personnel, the purchase of materials and supplies in Canada, the payment of taxes, rentals and royalties are all of economic benefit to Canada.

The operations of both of these companies in Alberta are effectively regulated by the Provincial and Dominion Governments.

Exhibit #1 shows the principal facilities of both of these companies and also the leased and contracted acreage in the Pakowki Lake area.

The Montana Power Company

The Montana Power Company is an independent public utility supplying electric energy, natural gas and other utility services in the State of Montana. The service and rates of The Montana Power Company are completely regulated within the State by the Montana Public Service Commission. The import of natural gas is subject to the jurisdiction of the Federal Power Commission. The Company serves electricity over most of the State of Montana in a service area having a population of 487,000. Electric service is supplied directly to 122,000 residential customers and also to commercial, industrial and municipal users.

Natural gas service has been supplied by the Company in Montana since 1931. Natural gas is supplied in 50 cities and towns in Montana to over 57,000 direct customers, of whom more than 50,000 are domestic users. It also furnishes gas to independent companies in three cities in which there are approximately 18,000 gas

users. The population served with natural gas is approximately 250,000.

The natural gas system of The Montana Power Company is shown on Exhibit #2. This map also indicates by a dashed line the proposed connection between a point on the Alberta-Montana border and Cut Bank, Montana to implement the proposed gas purchase from Alberta and Southern Gas Co., Ltd.

The Montana Power Company operates approximately 1,180 miles of gas pipe lines, ranging in size from 4" to 20". The transmission system is completely interconnected and integrated and extends from the Alberta-Montana border to the Clark's Fork field in southern Montana. The gas imported from Alberta has been essential to supplement that produced from United States sources to supply all customers.

The Montana Power Company is a long-established operating utility with extensive experience in the electrical and natural gas fields. Additions to utility plant for the six years, 1952-1957, including expenditures by subsidiaries in Alberta, amounted to approximately $78,000,000. Of this total $17,800,000, including the $10,000,000 purchase price for the Pakowki Lake reserves, has been invested in Alberta. The Company enjoys a fine financial reputation which enables it to plan and complete successfully any of the projects contemplated herein. Enclosed with this submission is a copy of The Montana Power Company's 1956 Annual Report, which is the most recent available, summarizing the company operations.

Alberta and Dominion Governments Issued Export Permits After Extensive Hearings

A review of occurrences leading to the export of gas into Montana from the Pakowki Lake area of Alberta will contribute to the better understanding of this submission. This export, currently in operation, was initiated in February 1952.

Following the close of World War II, The Montana Power Company was seriously concerned about the size of its then existing gas reserves. There was an urgent need to supplement its then available sources of supply necessary to meet the market

requirements but all efforts to obtain additional reserves in Montana and Wyoming had met with little success. In 1949 the Company turned its attention to Alberta.

McColl Frontenac Oil Co., Ltd., and the Union Oil Company of California had been exploring for petroleum and natural gas in the southeast corner of Alberta and had discovered an area which gave promise of developing commercial gas reserves. No Canadian market existed for this gas; it appeared to be beyond economic reach of the local utilities, and accordingly, in 1949 Montana Power commenced negotiations to purchase this gas reserve and to continue the development. These negotiations culminated in the purchase by The Montana Power Company of lease rights in the Pakowki Lake area by an agreement dated June 14, 1950 (Exhibit #3 hereto), subsequently assigned to Canadian-Montana Gas Company Limited. Changes have been made in the leased acreage subsequent to the date of said agreement due to other acquisitions and surrenders.

An application for export to Montana of the gas covered by the above-mentioned agreement was filed with the Alberta Petroleum and Natural Gas Conservation Board on August 2, 1950 in the name of McColl Frontenac Oil Co., Ltd., and Union Oil Company of California, who were jointly obligated under terms of the agreement to process an application for export. The application recited that if necessary authorizations were granted, the applicants agreed to assign their interests therein to The Montana Power Company, or a wholly-owned subsidiary thereof.

Additional information in support of this application was furnished the Petroleum and Natural Gas Conservation Board on October 11, 1950.

On May 31, 1951 Canadian-Montana Pipe Line Company was incorporated by Act of Parliament, Chapt. 86 of the Acts of 1950-1951, after hearings before the appropriate Government committees in Ottawa. This company was incorporated to own and operate the transmission line to the International Border and to export the gas from Alberta to The Montana Power Company. The Canadian-Montana Gas Company Limited was incorporated September 14, 1950 as an Alberta company to own the leases and operate

the producing and gathering installations.

The Alberta Petroleum and Natural Gas Conservation Board held joint hearings on the McColl-Union Oil Company application and the applications of others during November and December 1950. On January 20, 1951 the Board denied all applications because sufficient gas reserves for the future needs of the Province had not been established. At that time the Board found the reserves of the Province to be 4.7 trillion cubic feet.

The Korean War had started in June 1950 and by the spring of 1951 the production of strategic metals was extremely important to the Allied war effort. The shortage of gas reserves available to The Montana Power Company dictated that serious consideration be given to the curtailment of large industrial customers to permit continuation of service to the residential and commercial consumers. The largest industrial customer was The Anaconda Company, a producer and refiner of non-ferrous metals. It was the decision of the Governments of both Canada and the United States that gas service should continue to this important metal supplier. On April 7, 1951 the Alberta legislature passed The Gas Export Act, Chapter 36, Statutes of Alberta, 1951, authorizing the issue of the permit next mentioned. The Petroleum and Natural Gas Conservation Board issued a gas export permit on June 11, 1951. The permit was issued for a period of five years and authorized export of gas from three of the company's fields during this temporary period solely for The Anaconda Company's requirements.

Appearances were made during June 1951 before the Board of Transport Commissioners of the Dominion of Canada and required data in respect of this export were furnished. Export from the Dominion for these special circumstances was authorized by Order dated June 23, 1951.

Application was immediately made to the Federal Power Commission of the United States for import approval, and after hearings in September and October 1951, Presidential approval for import was secured February 2, 1952 and the Federal Power Commission approval was secured February 5, 1952 for import in conformance with the

Canadian permits. Export commenced February 7, 1952, under the permits.

In the interim the application for general export was continued before the Petroleum and Natural Gas Conservation Board in December 1951. The Board denied this and all other export requests on March 29, 1952 and found at that time that Alberta reserves had increased to 6.8 trillion cubic feet. The gas reserve trend continued to increase in Alberta, with the result that the Petroleum and Natural Gas Conservation Board found the gas requested to be exported to Montana to be surplus to the present and future needs of the Province and approved the application for general export of gas from the Pakowki Lake area to Montana. The permit issued by the Alberta Government May 14, 1954 provides for export from five fields in the Pakowki Lake area in annual quantities not to exceed 20 billion cubic feet and daily quantities not to exceed 100 million cubic feet. The permit is for a period of 20 years. At the time the Alberta permit was issued the reserves in Alberta were determined to be 11.5 trillion cubic feet of gas.

The Company made application on July 14, 1954 to the Federal Power Commission to amend its existing import order. Hearings were held before the Federal Power Commission in November 1954 and January 1955. The Federal Power Commission permit issued May 19, 1955 for a term of years identical to that authorized by Alberta.

A license to export gas, under the conditions imposed by Alberta, issued from the Department of Trade and Commerce of the Dominion of Canada on September 2, 1955. The term of this license is five years from its date of issuance.

Summary of Pakowki Area Export

To summarize the details of the preceding pages, the record shows that application for general export of gas to Montana was filed immediately after the execution of the agreement by which The Montana Power Company was to acquire the

Pakowki Lake properties and that an interim and temporary export was permitted to the mutual benefit of Canada and the United States. Continuing applications were made for general export of gas to supply The Montana Power Company's increasing market requirements. All applications of the Company and others were denied until the Alberta Board was satisfied that the existing reserves in Alberta, together with the rate of discovery of new reserves, had progressed to a point where it was established that this relatively small reserve located in a sparsely settled section of the Province was surplus to the present and future needs of Alberta and of eastern Canada.

Gas Reserves

According to our most recent reserve estimate the gas supplies available to the Company in the United States approximate 274 billion cubic feet. Gas reserves estimated for Alberta fields now connected to the gathering system of Canadian-Montana Gas Company in the Pakowki Lake area approximate 261 billion cubic feet.

The gas now being exported to Montana is produced from the Pendant d'Oreille, Manyberries, Smith Coulee, Black Butte and Comrey fields as indicated on Exhibit #1.

Markets and Supply of Gas

The total demand for natural gas on The Montana Power Company system during 1957 was about 34.5 billion cubic feet, of which approximately 10.7 billion cubic feet was supplied from Canada. Exhibit #4 shows the annual market and supply forecast for the period 1957-1965, inclusive. The market estimate contemplates normal growth of the system at 3 per cent per year for all business, exclusive of major industrials. The Company recognizes, however, that there may be additional growth in its industrial customers, that new industries may be established, and that additional areas may be served which will increase the system gas requirements above those shown in Exhibit #4.

Exhibit #4 also shows the anticipated sources of supply necessary to satisfy the estimated market. For purposes of this submission we assume favorable action on the application of Alberta and Southern Gas Co., Ltd., which will deliver us an estimated 10 billion cubic feet per year starting in 1961, and extension of the Dominion license for export from the Pakowki Lake area. The important factor in Exhibit #4 is the amount of gas which will have to be obtained from unspecified sources starting in 1963. We feel that Alberta, because of its proximity to our service area, is a logical place to look for future supply.

As shown by the findings of the Oil and Gas Conservation Board, the gas reserves of the Province are constantly being expanded as additional exploration and development takes place. The following table shows the trend of increase in gas reserves:

Date of Board's Finding		Reserve Found	Increase
January	1951	4.7 trillion ft.	-
March	1952	6.8 " "	2.1
November	1953	11.5 " "	4.7
November	1955	15.6 " "	4.1
January	1957	18.3 " "	2.7
		Increase in 6 years	13.6

Local Alberta requirements for gas service in the Pakowki Lake area have been satisfied. Rural customers adjacent to the gathering system shown in Exhibit #1, and the hamlet of Manyberries, Alberta, are presently being supplied with natural gas service by Canadian-Montana Gas Company Limited.

The Montana Power Company's largest gas customer is The Anaconda Company, with mines at Butte and smelter and refining operations at Anaconda, East Helena and Great Falls. Gas has been supplied to the Anaconda Company operations since 1931 when The Montana Power Company first entered into the natural gas business.

Anaconda's gas rate was increased at the time that gas export from Alberta started in 1952, from 12-1/2¢ per MCF to 20¢ per MCF. Anaconda has paid 23.5¢/MCF

for all gas used since approval of general export was granted in 1955. Effective January 1, 1958 the price for all gas has increased to 26¢/MCF. The increase to Anaconda Company, from 12-1/2¢ to 26¢ since the start of export of gas from Alberta has been 108%.

We are informed that natural gas service to major industrial customers in the vicinity of Calgary is furnished at rates of approximately 16¢ per MCF.

Gas From Alberta and Southern Gas Co., Ltd. Is Needed

Prior to 1957 Canadian-Montana Pipe Line Company was actively endeavoring to acquire additional gas in Alberta for export to Montana to supply the increasing requirements of The Montana Power Company's system.

Pacific Gas & Electric Company became interested in acquiring a source of gas in Alberta to supply its market in California.

It became apparent that the requirements of both companies could best be supplied through a single project and that it would be to the best interests of both producers and consumers if one company did the purchasing, gathering and transmission of the gas so far as possible. This would enlarge the area in which it would be feasible to purchase gas and make possible the payment of higher prices. The joint use of gathering and transmission facilities would result in savings in construction, operation and maintenance costs and thus contribute to the economic feasibility of the project.

In accordance with this plan Alberta and Southern Gas Co., Ltd. was organized to carry out the project in Alberta. This company has made contracts to purchase gas to supply the requirements of the utilities distributing gas in Edmonton and Calgary and also for resale ultimately to Pacific Gas & Electric Company and The Montana Power Company.

An agreement has been made for the gathering and transmission of the gas in Alberta by The Alberta Gas Trunk Line Company Limited, which will deliver the gas at points on the border of the Province.

Details of the Alberta and Southern Gas Co., Ltd. project, except for the Montana market requirements, are set forth in the brief of that company to your Commission.

The Montana Power Company and its Canadian subsidiaries are able to meet all of their financial and operating obligations in connection with this project, as shown herein. An established market in Montana for the gas proposed to be exported from Alberta and the need for increased export is described in this brief. Exhibit #4 sets forth the requirements of The Montana Power Company gas system proposed to be supplied from Alberta reserves.

Conclusion

As to the Pakowki Lake area, the latest reserve estimates indicate a relatively small reserve which is located in a sparsely settled area of the Province. The gas has previously been found to be surplus to the requirements of the Province, not desired as a source of supply for the local utilities, and not contributing to any other gas export project. As of January 1, 1958 approximately 18.5% of the estimated initial reserves of the five connected fields has already been produced. If Dominion export authorization is secured to conform to the term of permit granted by Alberta, the currently producing fields will be essentially depleted when the existing Alberta permit expires in 1974. The logical and intelligent future development and operation of this area makes it important that the Dominion permit be extended to conform to that issued by Alberta.

As to the pending application for export of gas to be purchased under the contract with Alberta and Southern Gas Co., Ltd., Exhibit #4 submitted herewith demonstrates conclusively the availability of an established market.

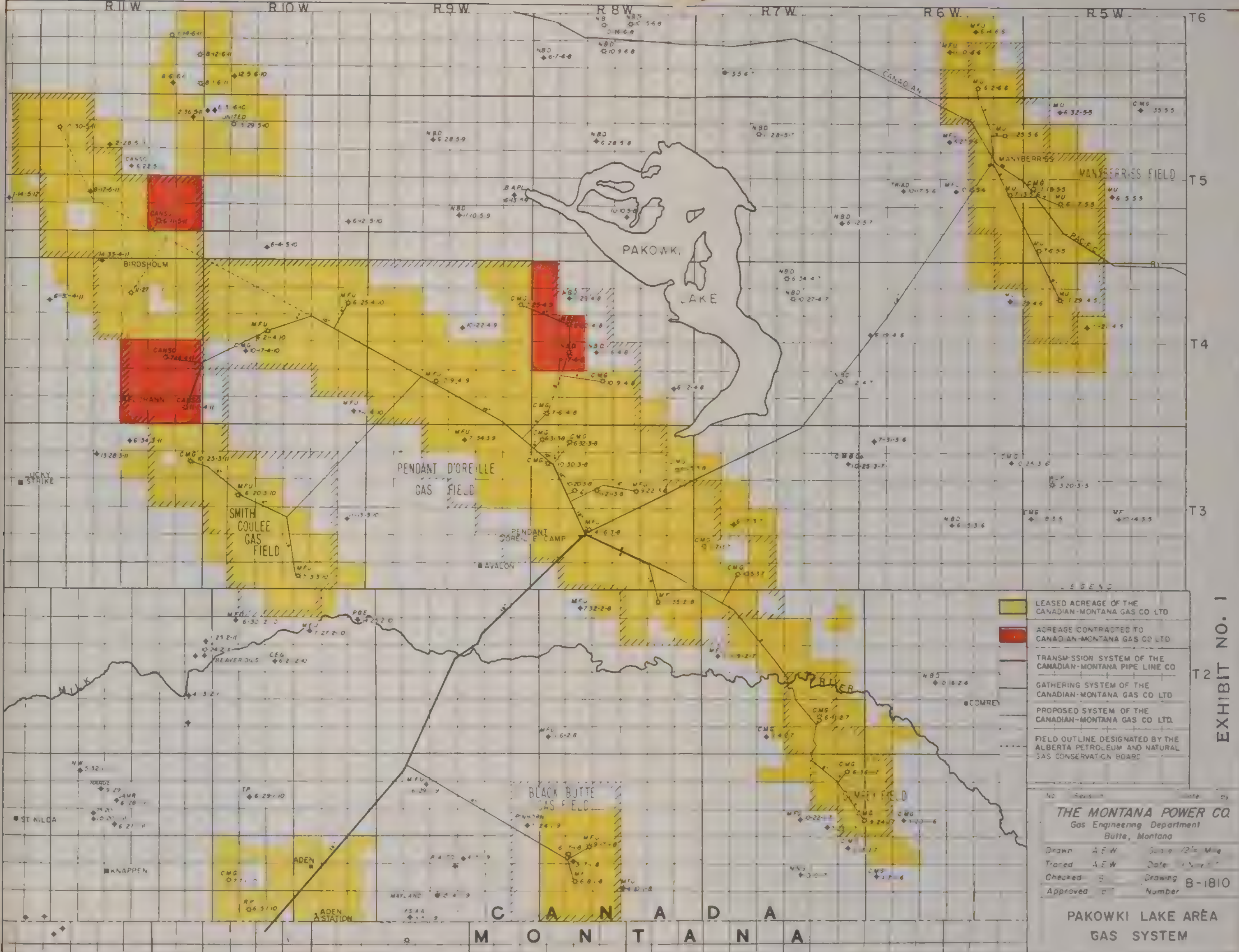
Exhibit #4 also shows that starting in 1963 additional gas supply is necessary to supplement the sources of supply now connected in Alberta and the United

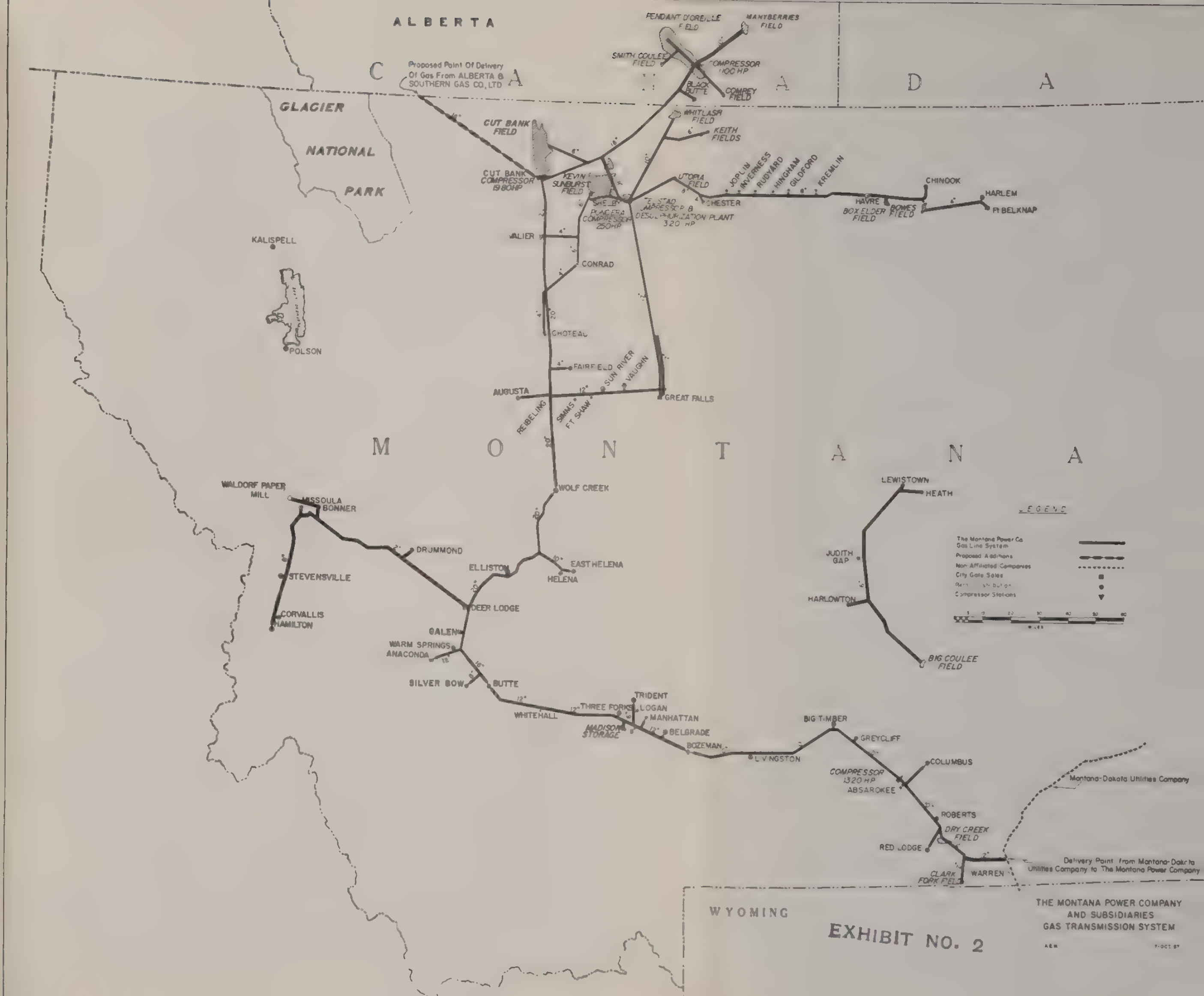
States and the supply proposed to be obtained under the application of Alberta and Southern Gas Co., Ltd., pending before the Alberta Oil and Gas Conservation Board. The proximity of The Montana Power Company service area to available Alberta gas supplies points to the Province as the logical source of gas reserves necessary to serve approximately 250,000 Montana people.

The continued development of oil and gas fields and the construction, maintenance and operation of facilities necessary to produce, gather and transmit the gas required by Montana will continue to contribute substantially to Canadian prosperity.

Respectfully submitted,

CANADIAN-MONTANA PIPE LINE COMPANY


R11W
R10W
R9W
R8W
R7W
R6W
R5W
T6
T5
T4
T3
T2
PAKOWKI
LAKE
MANYBERRIES
MANYBERRIES FIELD
BIRDSHOLM
PENDANT D'OREILLE
GAS FIELD
PENDANT
D'OREILLE CAMP
SMITH
COULEE
GAS
FIELD
AVALON
BLACK BUTTE
GAS FIELD
ADEN
ADEN
STATION
KNAPPEN
ST KILDA
LUCKY
STRIKE
COMREY
MILK
RIVER
CANADIAN
PACIFIC
UNITED
C A N A D A
M O N T A N A
EXHIBIT NO. 1
LEGEND
LEASED ACREAGE OF THE
CANADIAN-MONTANA GAS CO LTD
ACREAGE CONTRACTED TO
CANADIAN-MONTANA GAS CO LTD
TRANSMISSION SYSTEM OF THE
CANADIAN-MONTANA PIPE LINE CO
GATHERING SYSTEM OF THE
CANADIAN-MONTANA GAS CO LTD
PROPOSED SYSTEM OF THE
CANADIAN-MONTANA GAS CO LTD.
FIELD OUTLINE DESIGNATED BY THE
ALBERTA PETROLEUM AND NATURAL
GAS CONSERVATION BOARD
THE MONTANA POWER CO.
Gas Engineering Department
Butte, Montana
Drawn A E W
Traced A E W
Checked
Approved
Drawing
Number
B-1810
PAKOWKI LAKE AREA
GAS SYSTEM


ALBERTA
C A N A D A
Proposed Point Of Delivery Of Gas From ALBERTA & SOUTHERN GAS CO, LTD
GLACIER NATIONAL PARK
PENDANT D'OREILLE FIELD
MANYBERRIES FIELD
SMITH COULEE FIELD
COMPRESSOR 1100 HP
BLACK BUTTE
COMREY FIELD
WHITLASH FIELD
KEITH FIELDS
CUT BANK FIELD
CUT BANK COMPRESSOR 1980 HP
KEVIN SUNBURST FIELD
SHELBY
UTOPIA FIELD
CHESTER
JOPLIN
INVERNESS
RUDYARD
HINGHAM
GILDFORD
KREMLIN
HAVRE
BOX ELDER FIELD
BOWES FIELD
CHINOOK
HARLEM
FT BELKNAP
VALIER
CONRAD
KALISPELL
POLSON
CHOTEAU
FAIRFIELD
SUN RIVER
VAUGHN
AUGUSTA
GREAT FALLS
REIBELING
SIMMS
FT SHAW
M O N T A N A
WOLF CREEK
WALDORF PAPER MILL
MISSOULA
BONNER
DRUMMOND
ELLISTON
EAST HELENA
HELENA
STEVENSVILLE
CORVALLIS
HAMILTON
DEER LODGE
GALEN
WARM SPRINGS
ANACONDA
SILVER BOW
BUTTE
WHITEHALL
THREE FORKS
TRIDENT
LOGAN
MANHATTAN
MADISON STORAGE
BELGRADE
BOZEMAN
LIVINGSTON
BIG TIMBER
GREYCLIFF
COLUMBUS
COMPRESSOR 1320 HP
ABSAROKEE
ROBERTS
DRY CREEK FIELD
RED LODGE
CLARK FORK FIELD
WARREN
LEWISTOWN
HEATH
JUDITH GAP
HARLOWTON
BIG COULEE FIELD
LEGEND
The Montana Power Co. Gas Line System
Proposed Additions
Non Affiliated Companies
City Gate Sales
Compressor Stations
Montana-Dakota Utilities Company
Delivery Point from Montana-Dakota Utilities Company to The Montana Power Company
WYOMING
EXHIBIT NO. 2
THE MONTANA POWER COMPANY
AND SUBSIDIARIES
GAS TRANSMISSION SYSTEM

THIS AGREEMENT, made and entered into this 14th day of June, 1950, by and between McCOLL-FRONTENAC OIL COMPANY, LIMITED, a corporation, hereinafter referred to as "McColl", and UNION OIL COMPANY OF CALIFORNIA, a corporation, hereinafter referred to as "Union", both of said corporations being hereinafter referred to collectively as "Sellers", and THE MONTANA POWER COMPANY, a corporation, hereinafter called "Buyer",

W I T N E S S E T H:

WHEREAS, Sellers are the owners and holders, each as to an undivided one-half interest, of the oil and gas leases issued by the Crown in the right of the Province of Alberta, covering approximately 151,070 acres of land, listed in Exhibit A attached hereto and made a part hereof and as shown colored yellow on Exhibit B attached hereto and made a part hereof; and

WHEREAS, McColl is the owner and holder of similar oil and gas leases covering approximately 9,846 acres of land, likewise listed in Exhibit A and shown colored red on Exhibit B, and has the operating rights for both oil and gas upon 640 acres of land under an operating agreement with Hudson's Bay Oil and Gas Company, Ltd. and Imperial Oil Limited, dated November 12, 1943, which tract of land is shown on Exhibit B colored green; and

WHEREAS, Sellers desire to sell to Buyer the aforesaid oil and gas leases and operating agreement, together with all gas wells located on said lands, including casing therein and equipment

EXHIBIT NO. 3

appurtenant thereto owned by Sellers, (hereinafter sometimes collectively referred to as the "Properties"), and Buyer desires to purchase the same from Sellers:

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties hereto agree as follows:

1. Subject to the terms and conditions herein contained, Sellers agree to sell to Buyer and Buyer agrees to purchase from Sellers the Properties, in consideration of the payment by Buyer to Sellers of the aggregate sum of $10,000,000, lawful currency of the United States of America, in the manner and at the times hereinafter specified.

2. If and when the conditions precedent specified in Section 4 hereof have been complied with by Sellers and by Buyer, respectively, then the purchase and sale herein provided for shall be consumated at 10 o'clock A.M. on the first business day of the second month next following the month in which such compliance is completed. At such time Sellers shall deliver to Buyer as hereinafter provided the aforesaid leases and operating agreement being assigned and all necessary instruments of assignment and transfer of the Properties and of the licenses, permits, consents and orders specified in Section 4 (a), and upon the necessary consents to and registration of such assignments and transfers having been obtained, Buyer at such time shall pay the initial installment of the purchase price, as follows -

To McColl, the sum of $1,100,000, and

to Union, the sum of $900,000.

The remainder of said consideration, to wit, the sum of $8,000,000 shall be paid, without interest to the maturity date of the several installments, as follows -

Sixteen (16) annual installments of $275,000 each, to McColl, and sixteen (16) annual installments of $225,000 each, to Union, the first of each of said annual installments to each of said Sellers to become due and payable on the first anniversary date of the payment of the initial installments aforesaid. Provided, that any installment not paid at the maturity thereof shall bear interest thereafter until paid at the rate of four per cent (4%) per annum.

All payments shall be made by check or draft of Buyer payable to the order of McColl or Union, as the case may require. Checks or drafts for deferred payments shall be mailed or delivered to Union at its head office, 617 West Seventh Street, Los Angeles 17, California, U.S.A., and to McColl at Montreal, Quebec, Canada, or at such other addresses as the Sellers, respectively, may designate in writing to Buyer.

In the event Buyer is in default in the payment of any annual installment to either Seller for more than thirty (30) days after written notice of such default is given Buyer, then all remaining unpaid deferred installments to such Seller shall, at the option of such Seller, become

immediately due and payable.

The time of the delivery of said instruments of assignment and transfer is sometimes hereinafter called the "Time of Closing". The place of closing shall be Edmonton, Alberta, Canada.

3. Sellers shall, except as hereinafter provided, keep or restore their respective oil and gas leases (including said operating agreement) in or to good standing until the Time of Closing or until the obligation of the parties to purchase and sell the Properties is terminated as hereinafter provided - but it is agreed, however, that the expense of keeping said leases in good standing by future drilling or by the payment of rentals hereafter accruing shall be borne by Buyer; provided, further, that all rentals for the lease year current as of the date of this agreement shall be prorated between Sellers and Buyer as of said date.

As soon as is reasonably possible after the date of this agreement, Buyer will advise Sellers in writing of the lands covered by said leases which Buyer desires to have excluded from the provisions of this agreement in order to avoid payment of rentals thereon, and thereupon such lands shall be excluded from this agreement.

The parties hereto recognize that certain additional drilling should be done promptly to prove or disprove the gas-bearing qualities of certain acreage included in this agreement with a view to the reduction of rental thereon or the exclusion of the same from this agreement. McColl and Buyer will collaborate and McColl, for

the account and at the expense of Buyer, and for such purpose, will do such additional drilling as shall be designated by Buyer. Following the drilling of each successive well or wells and the resultant rental classification by the Department of Mines and Minerals, the Buyer will advise the Sellers of the land which it desires to have excluded from this agreement and such lands shall thenceforth be excluded from this agreement.

4. The obligation of Buyer to purchase the Properties and pay the consideration therefor shall be conditioned upon (a) the procurement by Sellers, at their cost and expense, from the Province of Alberta and Canada of all necessary licenses, permits, consents and orders to remove gas from the Properties from the Province of Alberta into the State of Montana, and to construct and operate a pipe line for the transportation of gas from the Properties to the International Boundary, and of the right to assign where necessary such licenses and permits to Buyer; and (b) the procurement by the Buyer, at Buyer's cost and expense, of all necessary permits, consents, orders and certificates from any and all State or Federal executive or regulatory authorities to permit the importation of said gas into the State of Montana.

Sellers shall proceed with reasonable promptness after the date of this agreement to make application for all such licenses, permits, consents and orders as provided in (a) above, and such applications, or any thereof, may be made in the name of Sellers or in the

name of a corporation which is a wholly owned (except for qualifying directors' shares) subsidiary of Buyer. Buyer shall, upon request of Sellers, cause the incorporation of such a subsidiary corporation which shall be qualified by law to hold property in the Province of Alberta either as an Alberta or a foreign corporation.

Sellers shall consult with Buyer in the preparation of such applications, and in connection therewith Buyer shall supply to Sellers, without cost to Sellers, all information reasonably within Buyer's power to provide, including engineering data, the making of studies and other assistance reasonably necessary for use on such application.

Buyer shall, on receiving notice that the foregoing permits, licenses and consents have been secured by Sellers, proceed with diligence to make application for all necessary permits, consents, orders and certificates from Federal and State regulatory bodies as provided in (b) above, and in connection therewith Sellers shall furnish Buyer, without cost to Buyer, such information Sellers may have at their disposal which may be necessary in preparing such applications.

5. In the event applications for any of the above licenses, permits, orders or consents from the Province of Alberta or Canada or any of the consents, permits, orders or certificates from any State or Federal regulatory or executive governing authority are not granted on or before July 1, 1952, this agreement shall ipso facto terminate on such date, provided that if before such date any such application shall

have been substantively denied, Buyer shall have the right to terminate this agreement at any time after such denial upon written notice to Sellers.

6. It is understood that the principal purpose of Buyer in entering into this agreement is the acquisition of the Properties as an additional reserve for the supplying, at a reasonable profit, of its customers with natural gas for industrial, commercial and domestic purposes by means of its presently existing transmission and distribution systems and any expansions thereof now being, or hereafter to be, made. If, therefore, the permit to export gas from The Petroleum and Natural Gas Conservation Board of the Province of Alberta, the license to export gas from the Board of Transport Commissioners of Canada, or any permit for the construction and operation of said pipe line, imposes such conditions, limitations, restrictions, provisions or qualifications as to defeat the aforesaid purpose of Buyer in entering into this agreement, then Buyer may, unless such conditions, limitations, restrictions, provisions or qualifications be eliminated within ninety (90) days after written notice thereof by Buyer to Sellers, terminate this agreement by giving Sellers written notice thereof within thirty (30) days after the expiration of such 90-day period.

7. Sellers shall give Buyer true and correct copies of all applications filed by Sellers pursuant to the provisions of this agreement and Buyer shall give Sellers true and correct copies of

all applications filed by Buyer pursuant to the provisions of this agreement. Sellers shall furnish Buyer with officially certified copies of any orders, rulings or other action of any governmental authorities granting or denying any applications filed hereunder by Sellers, and Buyer shall give Sellers officially certified copies of any orders, rulings or other action by governmental authorities upon any applications filed by Buyer hereunder.

8. In the event Sellers are unable to procure the necessary consents to the transfer and assignment of the Properties or to the transfer of any export licenses, permits and orders granted Sellers hereunder, then Sellers shall have the right to terminate this agreement upon ninety (90) days' notice to Buyer, unless within said 90-day period Buyer shall be able to obtain such consents.

9. In the event of the consummation of the purchase and sale herein provided all revenues derived from the operation or sale or other disposition of any of the Properties, less any expense, including royalties, incurred or paid in connection therewith by Sellers between the date of this agreement and the Time of Closing shall be for the account of Buyer, provided that no voluntary sale, operation or other disposition shall be made without the prior written consent of Buyer.

10. Sellers covenant and warrant with and to Buyer each as to its respective interest in the Properties assigned and transferred by Sellers to Buyer pursuant to the provisions of this agreement

that all such Properties shall, at Time of Closing, be free and clear of all taxes and other governmental impositions theretofore levied or assessed against the Sellers or said Properties, and of all mortgages, liens and other encumbrances made, done or suffered by Sellers; subject to all rents and royalties thereafter payable as follows: namely, (a) rents and royalties reserved by the Crown leases; (b) a total of 16-2/3% under the operating agreement; and (c) an overriding royalty of 2-1/2% of oil and 1/4 cent per m.c.f. of gas payable to A.F. Mewburn in respect of 9,402 acres in the area colored yellow on Exhibit B; that they are the lawful owners of said respective interests in and to said Properties and have the lawful right to enter into this agreement with respect thereto and to assign and transfer the same, subject to necessary approvals and consents of governmental authorities or of others, pursuant to this agreement; that, at Time of Closing, all rentals and royalties payable up to such time under the oil and gas leases and operating agreement which are assigned by Sellers to Buyer hereunder shall have been paid; that each and all of said oil leases and said operating agreement (and the oil and gas lease underlying the said operating agreement) shall, at Time of Closing, be in good standing and not subject to cancellation or termination for any default or failure of Sellers to theretofore perform the terms and conditions thereof; that Sellers shall not have voluntarily surrendered to The Petroleum and Natural Gas Conservation Board of the Province of

Alberta any right to produce gas from the acreage assigned, prior to Time of Closing; that at Time of Closing no contract or agreement shall then subsist by which gas produced from any of the acreage assigned is to be thereafter furnished, provided, sold or delivered to any person other than Buyer for any purpose; and that Sellers will indemnify and save harmless the Buyer from any and all loss, damage, claims, accounts, demands, actions, rights of action and causes of action asserted by any and all persons whomsoever which result from a breach of any of the covenants or warranties in this paragraph contained.

The covenants and warranties herein contained and the indemnities herein provided are and shall be deemed to be several and not joint and the obligations hereunder of each Seller shall extend only to its respective interest herein described in the Properties assigned.

It is agreed between the Sellers and the Buyer that the covenants and warranties contained in this Section 10 and the provisions as to consents to assignments contained in Section 8 hereof shall not apply to the surface leases or rights of entry held by the Sellers. The obligation of the Sellers in respect of such surface leases and rights of entry shall be confined to assigning to the Buyer such assignable rights therein as Sellers hold.

11. Buyer shall not assign this agreement prior to the payment of the initial installments provided in Section 2 hereof without the prior written consent of Sellers, provided that Buyer may, at its election,

at any time assign this agreement to any corporation which is a wholly owned (except as to directors' qualifying shares) subsidiary of Buyer qualified by law to hold property in the Province of Alberta either as an Alberta or a foreign corporation. No assignment, however, shall release Buyer from its obligation to pay Sellers the consideration for its purchase of the Properties as provided in this agreement.

Sellers shall not, without the prior written consent of Buyer, assign any of their rights or obligations under this agreement prior to the sale of the Properties herein provided for.

12. Concurrently with the closing, or as soon as is reasonably possible, Sellers shall deliver to Buyer all books and records in their possession relating to the title to, exploration and operation of the Properties, including all geological information which the Sellers have relating to lands in the general area in which the Properties are located, including, but not limited to, logs, samples and cores. Buyer agrees to keep said books and records so delivered to it intact for a reasonable period of time and each Seller shall have the right to inspect the same and make copies thereof at any and all reasonable times.

13. In the event of any termination of this agreement in accordance with any provision hereof, neither Sellers nor Buyer shall be under any further liability to the other saving and excepting obligations theretofore accrued, it being further agreed that no monies theretofore expended by Buyer for drilling operations or for rentals shall be

refunded by Sellers to Buyer and any obligation theretofore incurred for such purposes by Sellers for the account of Buyer shall be paid to Sellers, subject further, however, to the prorating as of the date of termination of any prepaid rentals.

14. Within ninety (90) days from the date hereof each Seller agrees to furnish each other and Buyer a certified copy of a resolution passed by its Board of Directors, authorizing or ratifying this agreement, and Buyer, within the same period of time, agrees to furnish to each Seller a certified copy of a resolution passed by its Board of Directors, authorizing or ratifying this agreement.

IN WITNESS WHEREOF, the Sellers and Buyer have caused this agreement to be signed, in triplicate, in their names by their Presidents or Vice Presidents, all as of the day and year first above written.

McCOLL-FRONTENAC OIL COMPANY, LIMITED

By /s/ J. M. PRITCHARD
President

UNION OIL COMPANY OF CALIFORNIA

By /s/ A. C. RUBEL
Vice President

SELLERS

THE MONTANA POWER COMPANY

By /s/ F. W. BIRD
President

BUYER

EXHIBIT A

Referred to in Agreement between McCOLL-FRONTENAC OIL COMPANY, LIMITED, UNION OIL COMPANY OF CALIFORNIA, and THE MONTANA POWER COMPANY, dated June 14th, 1950

Lease Number	Acres	Section	Township	Range	Meridian
69655	160	SW 17	1	8	4
69858	160	NE 17	1	8	4
70772	2079	4, 5, 6	1	7	4
70773	1600	12, E 11	1	8	4
		7	1	7	4
70774	640	9	1	7	4
70775	1920	16, 17, 18	1	7	4
70776	1400	1, 2	1	8	4
70776A	700	3	1	8	4
70777	2106	4, 5, 6	1	8	4
70778	640	7	1	8	4
70779	320	W1/2 11	1	8	4
70779A	1280	10, 9	1	8	4
70780	1280	13, 14	1	8	4
70780A	640	15	1	8	4
70781	800	16, SE 17	1	8	4
70782	800	NW 17, 18	1	8	4
70783	1920	19, 20, 21	1	8	4
70784	1278	23, 24	1	8	4
70784A	640	22	1	8	4
70785	800	25, NE 26	1	8	4
70787	1280	29, 30	1	8	4
70789	1920	34, 35, 36	1	8	4
Hudson's Bay	640	8	1	8	4
72436	957	W1/2 4, 5	3	8	4
72437	1928	7, 17, 18	3	8	4
72438	1760	9, 10, N1/2 & SE 16	3	8	4
72439	1922	11, 12, 13	3	8	4
72440	1760	14, 15, S1/2 & NW 22	3	8	4
72441	1920	19, 20, 21	3	8	4
72442	1280	23, 24	3	8	4
72443	1280	27, 34	3	8	4
72444	1922	28, 29, 30	3	8	4
72445	1921	31, 32, 33	3	8	4
72446	160	NE 26	3	8	4
72447	1278	4, 5	4	8	4
72448	640	7	4	8	4
72449	2062	1, 2, 12	1	9	4

Lease Number	Acres	Section	Township	Range	Meridian
72450	1926	11,13,14	1	9	4
72451	1288	23,24	1	9	4
72452	641	13	3	9	4
72453	1279	23,24	3	9	4
72454	1440	25, NE 26,36	3	9	4
72455	1280	27,28	3	9	4
72456	640	32	3	9	4
72457	1920	33,34,35	3	9	4
72458	1924	1,2,3	4	9	4
72459	1920	4,5,6	4	9	4
72460	1920	7,17,18	4	9	4
72461	1921	10,11,12	4	9	4
72462	1280	13,14	4	9	4
72463	1920	19,20,21	4	9	4
72464	1280	29,30	4	9	4
72465	640	31	4	9	4
71415	1920	9,15,16	4	9	4
71374	160	NE 22	3	8	4
71382	160	SW 16	3	8	4
71387	640	6	4	8	4
72470	1918	6	3	7	4
		31	2	7	4
		1	3	8	4
72471	1596	2,3,E1/2 4	3	8	4
72472	1274	33,34	2	8	4
72473	1437	25,NE 26,36	2	8	4
72474	639	27	2	8	4
72475	1902	N1/2 13, N1/2 14,23,24	2	8	4
71395	636	35	2	8	4
72476	1584	33,34, W1/2 35	2	10	4
72478	1920	1,2,11	3	10	4
72479	1920	4,9,10	3	10	4
72480	640	5	3	10	4
72480A	640	7	3	10	4
72482	640	15	3	10	4
72483	1922	16,17,18	3	10	4
72484	1924	19,20,21	3	10	3
72487	644	29	3	10	4
72488	1280	30,31	3	10	4
72490	1280	11,12	4	10	4
72494	1920	13,14,15	4	10	4
72495	640	16	4	10	4
72496	1920	19,20,29	4	10	4
72497	1922	22,23,24	4	10	4
72498	1924	27,28,33	4	10	4
72499	1922	30,31,32	4	10	4

Lease Number	Acres	Section	Township	Range	Meridian
72500	640	34	4	10	4
72501	1440	NE 26,35,36	4	10	4
71411	640	25	4	10	4
71524	640	21	4	10	4
71772	640	3	3	10	4
73129	1916	13,14,15	5	10	4
73130	1920	16,17,18	5	10	4
73131	1916	19,30	5	10	4
		24	5	11	4
73132	1920	21,20,28	5	10	4
73133	1278	32,33	5	10	4
73134	1276	5,6	6	10	4
73135	1910	7,18	6	10	4
		13	6	11	4
73136	1916	25,35,36	5	11	4
73137	956	2, E1/2 11	6	11	4
73138	636	25	6	11	4
73296	8330	7,9,10,15,16,17,18, 19,20,22,27,28,30	4	5	4
73297	8306	1,2,11,12,14,23,24	5	6	4
		5,7,17,18,19,20	5	5	4
73298	1275	34,35	5	6	4
73299	640	36	5	6	4
73300	7650	1,2,3,4,9,10,11,12, 13,14,15,16	6	6	4
73301	636	18	6	6	4
73631	640	13	5	6	4
71771	640	6	5	5	4
71795	640	21	4	5	4
73667	640	29	4	5	4
73857	1276	14,15	6	7	4
73858	5303	22,23,24,25,NE 26, 27,34,35,36	6	7	4

__________ - McColl - 100%

Remainder - McColl - Union - 50-50 undivided interest.


FOREMOST
PENDANT
D'OREILLE
PAKOWKI
MANYBERRIES
SMITH
COULEE
BLACK
BUTTE
4-12
4-11
4-8
4-6
4-4
3-12
3-11
3-9
3-7
3-6
3-5
3-4
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1-12
1-11
1-10
1-9
37N 2E
37N 3E
37N 4E
37N 5E
37N 6E
37N 7E
McColl Leases
McColl-Union Leases
McColl Operating Agreement
EXHIBIT "B"
Referred to in Agreement between
McColl-Frontenac Oil Company, Limited,-
Union Oil Company of California
and The Montana Power Company
Dated June 14 1950

ANNUAL MARKET & SUPPLY FORECAST
EXCLUDING LEWISTOWN PROJECT
ALL GAS IN MCF @ 14.4 PSIA

YEAR	1957 (Actual)	1958	1959	1960	1961	1962	1963	1964	1965
Annual Market	34,538,662	36,917,000	38,859,000	39,776,000	40,160,000	43,656,000	44,350,000	45,065,000	45,801,000
Supply from U.S. Source	23,772,669	22,457,000	22,019,000	22,419,000	15,305,000	17,766,000	17,849,000	17,642,000	16,503,000
Supply from Canada									
Pakowki Area	10,765,993	14,460,000	16,840,000	17,357,000	14,770,000	15,805,000	15,288,000	15,288,000	15,288,000
Alberta & Southern Contract of October 15, 1957	-	-	-	-	10,085,000	10,085,000	10,085,000	10,085,000	10,085,000
Additional Supply Required	-	-	-	-	-	-	1,128,000	2,050,000	3,925,000
TOTAL	34,538,662	36,917,000	38,859,000	39,776,000	40,160,000	43,656,000	44,350,000	45,065,000	45,801,000

EXHIBIT NO. 4

1956

Report to Stockholders

THE MONTANA POWER COMPANY

THE MONTANA POWER COMPANY

DIRECTORS

F. W. Bird, *Chairman of the Board, The Montana Power Company*........Polson
Dean Chaffin, *President, Northern Automobile Company*........Bozeman
Sam B. Chase, *Vice President and Counsel, The Montana Power Company*........Butte
J. E. Corette, *President and General Manager, The Montana Power Company*....Butte
E. F. Galt, *Chairman of the Board, First National Bank*........Great Falls
Norman B. Holter, *President, Holter Hardware Company*........Helena
W. J. Jameson, *Attorney, Coleman, Jameson and Lamey*........Billings
Walter H. McLeod, *President, Missoula Mercantile Company*........Missoula
G. R. Milburn, *Stockman and Rancher, Manager, N Bar Ranch*........Grass Range
C. H. Steele, *Vice President, Western Operations, The Anaconda Company*........Butte
Taylor B. Weir, *Attorney, Weir, Gough and Matson*........Helena

OFFICERS

F. W. Bird........Chairman of the Board
J. E. Corette........President and General Manager
T. L. Doran........Vice President
C. J. Burns........Vice President
Sam B. Chase........Vice President and Counsel
D. J. McCaig........Secretary and Assistant Treasurer
J. R. Sullivan........Treasurer
H. C. Donaldson........Assistant Secretary and Assistant Treasurer
C. J. Commons........Assistant Secretary
J. J. Harrington........Assistant Treasurer
L. M. Gannon........Assistant Secretary

DIVISION MANAGERS

George Scotten........Billings Division
Harold K. Near........Bozeman-Livingston Division
Frank J. Lynch........Butte Division
M. R. Byers........Great Falls Division
H. K. Dickinson........Helena Division
W. W. Talbott........Lewistown Division
Harry McCann........Missoula Division

TRANSFER AGENTS

COMMON STOCK

Registrar & Transfer Company
New York, N. Y.

Office of the Company
Butte, Montana

PREFERRED STOCK

Registrar & Transfer Company
Jersey City, N. J.

Office of the Company
Butte, Montana

REGISTRARS

COMMON STOCK

Corporation Trust Company
New York, N. Y.

Metals Bank & Trust Company
Butte, Montana

PREFERRED STOCK

Corporation Trust Company
Jersey City, N. J.

Metals Bank & Trust Company
Butte, Montana

HIGH LIGHTS OF THE YEAR

Operating revenues reached an all-time high of $39,167,184, up two million dollars over 1955 and more than double the revenues of 10 years ago.

Income available for common dividends was $3.23 per share, an increase of 21 cents over the previous year.

We now serve 141,143 electric and 51,465 natural gas customers, having added 3,905 electric customers and 6,207 gas customers in 1956.

Electric energy sales exceeded three and one-half billion kilowatt-hours, up 6.3% over 1955.

Residential electric customers increased 3.1% and residential electric revenues were up 8.1%, continuing a trend that has been established in the last 10 years.

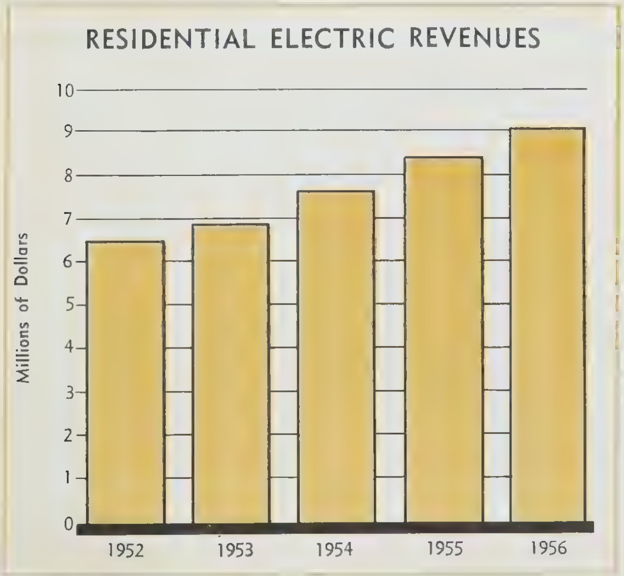
Average annual use of residential electricity increased to 3,471 kilowatt-hours per customer, 16.5% above the national average.

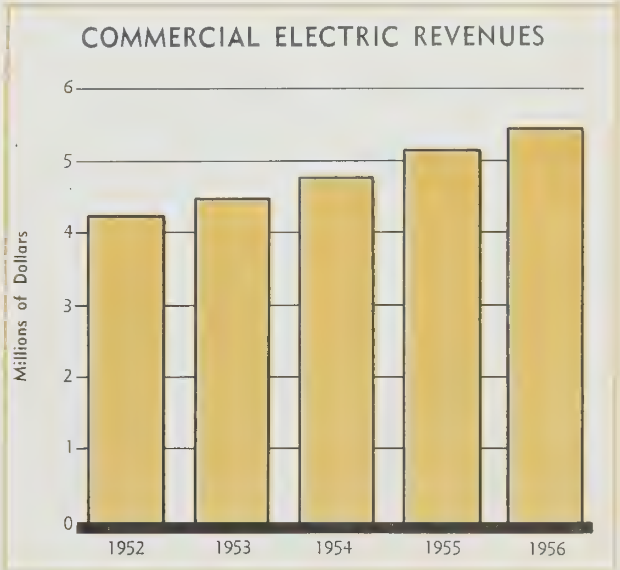
The average cost of residential electricity dropped to 2.19 cents per kilowatt-hour, which is 15.4% below the U.S. average.

Construction of the 60,000-kilowatt Cochrane hydroelectric development was initiated, with completion scheduled by the end of 1957.

More than 450 miles of natural gas transmission and distribution lines were built, and gas service was made available to 13,850 new customers in eight cities of Montana.

The Company's 1956 activities were the result of and were geared to the steady growth and progress of Montana, which has continued in the same pattern during the last decade.





LETTER FROM MANAGEMENT

Your Company in 1956 recorded all-time record highs in every department of its operations, continuing the pattern of growth and expansion that has characterized its business during the last decade. This steady progress, which your officers and directors expect to be maintained, reflects the spirit of Montana and the opportunities that are constantly being realized.

Operating revenues totaled $39,167,184, an increase of 5.6 per cent or $2,000,000 over the 1955 total. Electric revenues were up 7.3 per cent to $28,786,664, while natural gas revenues, influenced by unusually warm weather, increased only 1.6 per cent to $9,854,723.

Extension of service to new areas, general system growth and the addition of nearly 4,000 new electric customers and 6,200 new gas customers were reflected in operating expenses, which increased 6.8 per cent to $12,949,793. While this increase was anticipated due to higher labor and material costs, added purchases of power and extension of natural gas service to eight new communities, your Company continued its policy of tight budget control and constant supervision of expenditures so that it was able to bring 20.5 per cent of its revenue down to net income available for common dividends, compared with 20.2 per cent carrydown in the previous year.

The net available for common dividends in 1956 was $3.23, an increase of 21 cents or seven per cent over the previous year's figure of $3.02. This figure does not include earnings which are represented by the Company's natural gas rate increase. These are not included in revenues.

Berkeley Pit: Anaconda Company uses electric shovels to dig low-grade copper ore from famous Butte Hill

Your Company's constantly-expanding business carries with it an enormous requirement in new plant and property necessary to provide fine service to an increasing number of electric and gas customers. Investment in new plant and property during 1956 totaled $16,625,000, bringing to just under $99,000,000 the amount of money that has been invested by your Company in the last 10 years.

The requirement will be even greater in 1957 and a construction budget of $21,000,000 is anticipated. It is the present intention of your officers and directors to obtain money needed to pay for construction through bank borrowings or the sale of long-term securities as the market indicates.

Another heavy requirement is in taxes, which in 1956 took $11,748,512 or 30 cents out of every dollar of revenue your Company took in.

The trend toward industrial development in Montana has been growing in importance throughout the last decade, and 1956 saw a number of substantial new industries initiated. Some evidence of the state's general growth and progress will be found on Pages 8 and 9 of this Report.

Industrial development and the general expansion of the State's economy have been reflected in a steady population increase. Montana now has 675,000 people, which represents a 14 per cent gain over 1950.

To adequatelv meet the increased demand for electric power that is the natural consequence of such development, your Company has started construction of a 60,000-kilowatt hydroelectric development near Great Falls. Completion of this plant at the end of 1957 will maintain the Company's position of always having more power than is needed so that it has room to grow and serve new customers.

During the year, your Company also negotiated a new firm power contract with Bonneville Power Administration, assuring a supply of 50,000 kilowatts of power for a 20-year period, and contracted with the Bureau of Reclamation to purchase 25,000 kilowatts of power for its Havre-Whately area in the northern section of the state.

On April 23, 1956, the Federal Power Commission issued your Company a 50-year license covering its eight existing hydroelectric developments on the Madison and Missouri Rivers and the new Cochrane plant, which is under construction. The securing of this consolidated license, which climaxed 14 years of negotiation and litigation, is regarded as one of the most important accomplishments of the year from

the standpoint of its future effect on the operations of your Company.

Noteworthy in your Company's natural gas activity was the extension of service to eight Montana communities which previously had not been served. This program, details of which may be found on Pages 6 and 7, will have an important beneficial impact in future years as the load builds up in those areas.

To provide additional sources of supply for the Company's growing gas system, the Manyberries field was connected during 1956 and the newly-developed Comrey field will be connected in 1957. Your Company also has negotiated the purchase of gas reserves and two producing wells from the California-Standard Company in the Pakowki Lake area. All of these developments are in Canada.

Your Company's policy will be to continue to carry on substantial programs of exploration, development and purchase so that the gas reserves available to its customers are constantly being increased. It is expected that this program will be centered in Canada, Montana and Wyoming.

The Montana Supreme Court on March 19, 1957, affirmed the order of the Montana Public Service Commission and the District Court in granting your Company an increase in natural gas rates. The protestant in the case had 10 days from that date in which to petition for a rehearing. The general rate increase was granted by the Public Service Commission on August 5, 1953, but the order was appealed by the then-Attorney General of Montana and had been in the courts since that time. The original order was re-affirmed by the Commission and the District Court in 1955.

As the charts on Page 1 indicate, your Company's electric business has been growing at a steady and completely satisfactory rate for many years. This residential and commercial business is a reliable indicator of the general business progress and growth in the Company's service area, and the appraisal of your officers and directors leads them to believe this steady growth will continue in the future. Consequently, there is nothing in the picture to dilute the confidence which all of us have always had in the future of Montana.

The increase in revenues and the control of expenses which are apparent in the Company's financial statement is partially due to the efficiency, industry, loyalty and cooperation of our employees. The directors and officers wish to express their appreciation for this fine spirit of teamwork and morale.

Verdant Plains: Clover stretches over the landscape near Red Lodge. Livestock grows fat on this fare

Norman B. Holter, a valued member of the Company's board of directors for nearly 22 years, died February 9, 1957, on his 89th birthday. His extensive knowledge of Montana's business and industrial economy and his lifelong devotion to the development of his native State gave him a rich background on which to base policy decisions. In his passing, Montana and the Company have lost a pioneer who made outstanding contributions to the progress of both.

The Pacific Northwest Power Company, in which your Company has a one-fourth interest, has completed hearings before the Federal Power Commission on its application for a license to construct and operate the Mountain Sheep and Pleasant Valley hydroelectric projects on the Snake River in Idaho. Because of the tremendous importance of these projects in meeting the power requirements of the Northwest, the sponsoring companies are pressing forward with plans and hope for an early approval of the license. The two projects will produce approximately 1,200,000 kilowatts of power, of which nearly 300,000 kilowatts will be available for use in Montana.

Pacific Northwest Power Company's new president is John J. Burke, chairman of the board of the Metals Bank & Trust Company of Butte, who for many years has been a business and civic leader in Montana. Mr. Burke succeeds Kinsey M. Robinson, president of Washington Water Power Company, who becomes chairman of Pacific Northwest's board.

Submitted by order of the Board of Directors.

B. W. Bird
Chairman of the Board

J. E. Corette
President and General Manager

ELECTRIC OPERATIONS . . . . . Work Started on Cochrane Plant

To meet the growing demand for electric power in Montana, the Company in 1956 started construction of its 14th generating plant, the 60,000-kilowatt Cochrane hydroelectric development on the Missouri River near Great Falls.

Ground-breaking ceremonies were conducted at the site on October 6, with Governor J. Hugo Aronson heading the list of dignitaries who participated. Construction of the project is on schedule, with the cofferdam completed and excavation of the power house section under way.

The construction schedule calls for completion of Cochrane by the end of 1957. When the plant goes into production, it will increase the Company's system capability to 671,000 kilowatts, of which 220,000 kilowatts will be concentrated in the Great Falls area.

Indicating the growth of power requirements which prompted the new development, the Company's 1956 system peak was 528,000 kilowatts, an increase of 11,300 kilowatts over the previous year's peak of 516,700 kilowatts. The demand continued to climb at the outset of 1957, with a peak of 539,000 kilowatts being recorded late in January.

The Company has negotiated a firm power contract with the United States Bureau of Reclamation to provide an additional source of supply for the Havre-Whately area in northern Montana. Under this contract, the Company is purchasing 25,000 kilowatts of power from Fort Peck and Canyon Ferry. The contract is for a period of six years and thereafter until cancelled on one year's notice. Under the contract, the Company also has the right to transmit over the Bureau of Reclamation line between the Fort Peck and Rainbow power plants any power needed to meet our requirements in the area beyond the amount supplied by the Bureau.

To take advantage of this source of power, the Company has constructed a large substation at Havre.

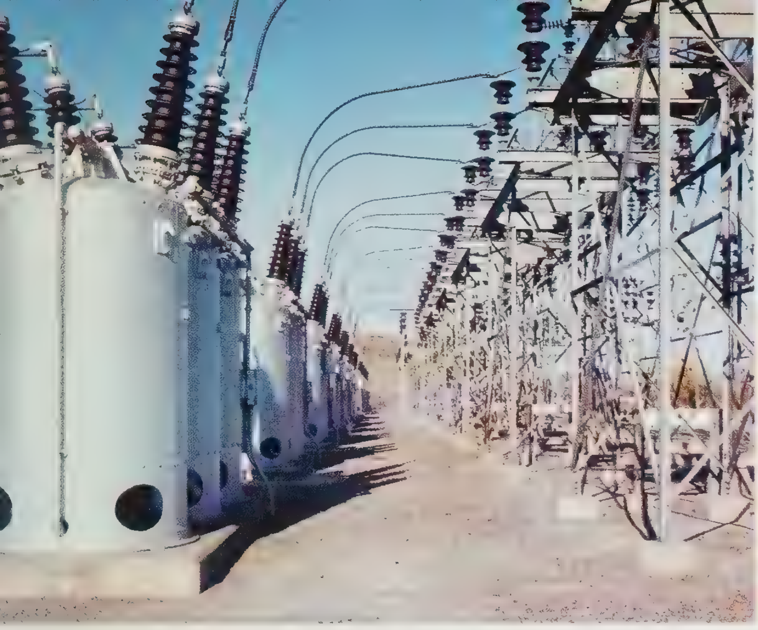
The Company also executed a new 20-year contract with Bonneville Power Administration, under which we are purchasing 50,000 kilowatts of firm power. The 20-year agreement replaced a five-year contract for the same amount of power, which was entered into in 1950.

As another means of improving power supply, 7,500 feet of pipeline at the Madison hydroelectric plant were replaced and the dam was repaired and reconditioned.

Deliveries of power to the Pacific Power & Light Company's system in Wyoming were inaugurated December 20. Under a cooperative arrangement, Pacific constructed a 161,000-volt transmission line from Billings to the site of the proposed Yellowtail dam from which point power is transmitted to Wyoming over facilities of the Bureau of Reclamation and Pacific. Our Company will supply power to Pacific for use in Wyoming until the fall of 1958 when Pacific's new steam-electric plant at Glenrock, near Casper, is completed.

Cochrane Project: Construction is speeded to assure Montanans of extra power during winter of 1957-58

Communications: The Company's microwave system, to be nation's largest of its kind, will speed operations



Switchyard: Nerve centers like this one at Rainbow keep Montanans in power in 90,000-square-mile area

State Capital: Main street in progressive city of Helena traces Last Chance Gulch of gold-mining days

In addition to energy sales on our own system and to Wyoming, the Company in 1956 sold 627,843,000 kilowatt-hours of surplus energy to utilities in Utah and Washington, obtaining revenues of $1,852,974. This power is surplus to the requirements of the Company's Montana customers but can be called upon at any time the need exists in Montana.

Late in the year, Bonneville Power Administration curtailed deliveries of interruptible power to the Anaconda Aluminum Company at Columbia Falls. Our Company made up the deficiency under a contract we have with Anaconda Aluminum Company to furnish power whenever BPA is unable to supply its total requirements.

The year also marked the completion of the north leg of the new microwave system which is being installed to provide telemetering and dispatching of electric and natural gas operations, as well as providing communications between the general office and division and operating points. The west leg of the microwave system will be installed in 1957 and the final installation of the east leg will be completed in 1958.

Extensive general improvements were made in the electric system during the year. Twenty miles of transmission line in the Bitter Root valley were reconditioned, doubling the capacity of that part of the line. New substations were installed at Billings and Great Falls to serve general business and at Butte to supply the Anaconda Company's Northwest Project, now in the development stage. Substation capacity was increased in Anaconda to serve expanded smelter operations, as well as in Havre and the Philipsburg area.

Throughout the system, 162 miles of distribution lines were installed, reflecting the constant growth and expansion that is going on in the Company's service area. At the same time, approximately 1,630 new street lights were installed in a number of communities and it is estimated that about the same number will be added in 1957.

The Company carried out an expanded sales program during the year, with special emphasis on three promotional campaigns. These were the "Live Better Electrically" campaign, the "Housepower" program and a special time-pay wiring plan by which the Company, working with electrical contractors and the banks, is facilitating the modernization of residential home wiring by customers on the system. Special sales campaigns carried on in the Billings and Great Falls divisions in cooperation with dealers and distributors resulted in 4,834 new major electric appliances being installed in those two areas.

The Company has 36 customer service advisors and six home service advisors, working in the divisions under the coordinated program of the sales department. These employees made more than 100,000 contacts with customers and potential customers during the year.

Major project scheduled in 1957, in addition to the Cochrane plant, will be the start of construction of a second 161,000-volt transmission line from the Kerr hydroelectric plant to Anaconda. The Kerr-Missoula section will be built during the coming year, with the Missoula-Anaconda section to be completed in 1958.

Electric revenues in 1956 increased 7.3 per cent over the previous year, reaching a record high of $28,786,664. Energy sales also were at an all-time high of 3,576,169,000 kilowatt-hours, up 6.3 per cent over 1955. The Company now serves 141,143 electric customers, an increase of 2.8 per cent over the previous year. Residential customers now total 120,921, up 3.1 per cent over 1955.

NATURAL GAS OPERATIONS . . . . . Expansion Is Keynote

Expansion was the keynote of the Company's natural gas operations in 1956.

More than 450 miles of transmission lines and distribution mains were constructed as eight Montana communities were added to the gas system. These lines ultimately will serve approximately 13,850 new customers.

At the same time, new sources of supply were being tapped in Canada under the Company's program of exploration and development.

Missoula, the state's fourth largest city with a population of 37,240, was connected to the gas system on June 25. During construction of the line to Missoula, the town of Drummond began receiving gas service on June 4. Service to Missoula and Drummond is provided through a 76-mile, 12-inch line connecting with the Company's 20-inch system near Deer Lodge.

Late in the summer, 43 miles of 8-inch line were installed from Missoula into the Bitter Root valley, and service was initiated in the towns of Hamilton, Stevensville and Corvallis on September 19.

A 75-mile, 6-inch line also was laid from the Big Coulee gas field in central Montana to the towns of Lewistown and Harlowton. Service was initiated in Harlowton on October 24 and in Lewistown on December 3.

The Lewistown-Harlowton gas system is separate from the Company's main operations and is supplied entirely from the Big Coulee field, 11 miles south of Ryegate. The field at present has three producing gas wells, one owned by The Montana Power Company and two operated by the Northern Natural Gas Producing Company, from which Montana Power purchases gas. A plan is being worked out now to operate the field as a unit.

New Gas Town: Crews pushed natural gas line early in 1956 to Hamilton, in prosperous Western Montana

The other gas system extension during the year was to the town of Augusta, north of Helena, which began receiving service on September 19.

Representatives of the sales department conducted extensive customer contact work during the year, principally in connection with the initiation of natural gas service in the communities being served for the first time. A total of 12,422 applications for gas service within two years was secured from new customers, representing 86 per cent of the potential customers in these new areas of the system. Personal contacts resulted in the addition of 6,224 new gas users during the first year. The sales department has outlined a program of contacts in 1957, designed to convert the remaining applicants into users.

Three new Canadian sources of supply were brought into the natural gas picture during the year.

Construction of 32 miles of gathering system connected the Manyberries field to the Company's production resources. This field, approximately 20 miles northeast of Pendant d'Oreille, is part of the Pakowki Lake reserves and was included in the original purchase in 1950 but withdrawals from Manyberries field were excluded prior to the time the Company received a general export permit from the Canadian Dominion Government.

During 1956, the Company also developed an entirely new gas reserve in the Comrey field, southeast of Pakowki Lake. Three producing wells have been drilled to date. In 1957, the Company plans to construct gathering lines to connect the Comrey field to our system.

The Company early in the year purchased from the Texas Company all of the gas wells, reserves and gathering lines of that company in northern Montana, from which we already were purchasing gas.

Late in the year, the Company purchased the gas reserves and two wells owned by the California Standard Company in the Foremost field of southeastern Alberta, Canada. Further development of this field will be carried on in 1957, and gathering lines will be constructed to connect it to our present system.

Exploratory rights under reservation or license status have been acquired in 105,600 acres in southeastern Alberta. Preliminary geological and geophysical work has been undertaken in several areas preparatory to setting up a 1957 drilling program.

Work on the Madison gas storage project continued. Twelve wells were drilled to determine

Lewistown School: Big Coulee natural gas field supplies Central Montana communities of Lewistown and Harlowton

Pushing Ahead: 227 miles of transmission lines pierced plains, mountains during major expansion project of 1956

the geology of the area, and at the close of the year, eight wells had been connected for injection and withdrawal use. The winter of 1956-57 has provided a major test for the Madison storage reservoir, which is located between Butte and Bozeman, and performance of the field during peak delivery periods has been successful. Gas was withdrawn from the storage wells during 12 days of November and December and during the month of January. Storage has been called upon during these periods to provide up to 5½ million cubic feet of gas daily to help meet peak requirements on the system.

A pipe replacement program has been started in gas distribution systems in northern Montana, and, to date, more than two miles of mains have been replaced in the towns of Chinook, Havre and Conrad. At the same time, a considerable amount of special maintenance work was carried out on transmission lines in that area of the system.

During the year, the natural gas laboratory in Butte tested 371 new gas appliances. This program was instituted several years ago to assure minimum appliance performance standards and safety precautions for equipment being installed on our system.

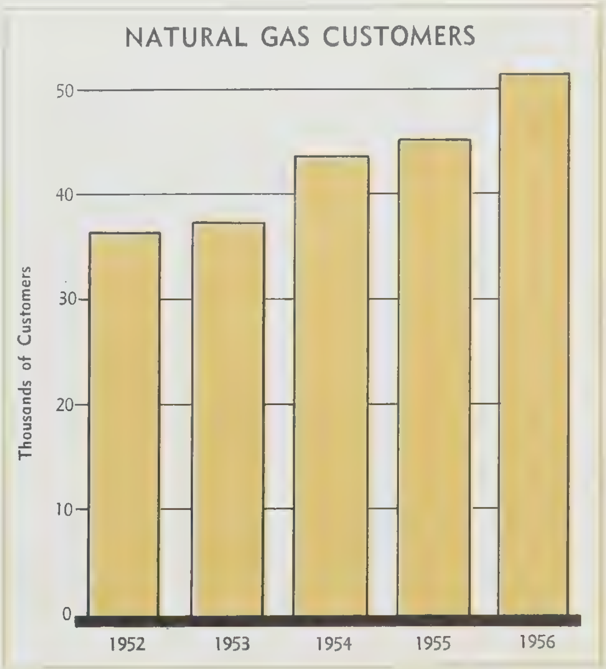
Major service extension in 1957 will be construction of 20 miles of 8-inch line tapping the Deer Lodge-Missoula transmission line and designed to supply natural gas to the Waldorf Paper Company pulp mill west of Missoula. The communities of Bonner, East Missoula and Milltown also will be served from this line.

Gas contracts have been made with the Waldorf Paper Company, and with the U.S. Gypsum Company to supply its plant at Heath and the American Crystal Sugar Company to supply its plant near Missoula. New contracts also were made with Victor Chemical Works to supply its elemental phosphorus plant near Butte and the Ideal Cement Company for its plant at Trident.

During 1957, the Company expects to continue its exploration and development program, principally in Canada, in line with its policy of developing new gas reserves to supply its constantly-increasing system.

Due to unusually warm weather during the early part of the year and in the fall season, natural gas sales and revenues were up only slightly in 1956. Revenues for the year were $9,854,723, an increase of $151,433 over the previous year, and sales totaled 32,794,485,000 cubic feet, an increase of just under 1 per cent over 1955. These, however, were all-time highs for the Company.

The Company now serves 51,465 natural gas customers in 50 communities of the state, an increase of 13.7 per cent over the previous year.



A GROWING MONTANA . . . . . .

New Building: Modern business structure is typical of growth and expansion being shown in Missoula, one of communities in which natural gas service was initiated in 1956

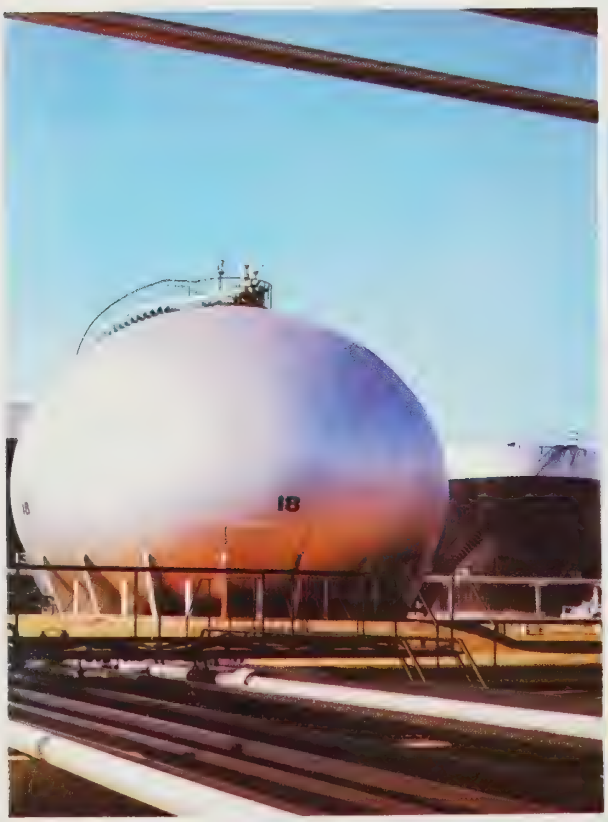
Montana's economic picture remained clear and bright in 1956, and the expanding industrial development for which the State has such broad opportunities showed marked progress.

A number of important new industries began operations during the year, and ground was broken for several others.

One of the principal new industrial enterprises is the Waldorf Paper Company's pulp mill, now under construction 13 miles west of Missoula. This plant, which will have a capacity of 250 tons of pulp daily, is Montana's first such operation. Electric and natural gas service will be supplied by The Montana Power Company.

Other significant new industries include Koal Krudes, Inc., which will manufacture tar and char from coal near Red Lodge; Timberweld Manufacturing Company, which will fabricate laminated wood beams at a new plant in Columbus; Montana Sulphur and Chemical Company, which is producing elemental sulphur for the pulp and paper industry at its plant in Billings; Montana Concrete Industries, which is making concrete products from slag at the nearby phosphorus plant at Silver Bow; Forman, Ford & Company, which will manufacture paints and paint pigments at Great Falls, and the Viva Stone Flour Mills, which makes flour and cereals at Lewistown.

The advent of natural gas in Missoula has led directly to a new industry in that community.



Black Gold: Resource-rich Montana counts oil high on list of products that bring industry

Insurance: Symbolizing faith in the future of the state where it started, Western Life Co. builds in Helena

. . . . . . Industrial Development Spotlights Economic Picture

The Bradley Neon Company has announced the formation of a gas kiln operation which will manufacture porcelain enamel on aluminum products. This plant is the first of its kind in the Pacific Northwest.

Value of production in Montana remained above the $950,000,000 level during 1956.

Notable gains were made in the oil and gas industry, which had a 27 per cent increase in the value of production, and in the mineral industry, where value of production went up nearly 16 per cent, compared with 1955. The 1956 value of production in the mineral industry was $150,644,598, up more than $20,000,000 over the previous year, while value in the oil and gas industry went up to $64,509,300, an increase of $13,757,000 over 1955.

Oil production during 1956 totaled 21,700,000 barrels, an all-time high for Montana and an increase of 6,000,000 barrels over the 1955 figure.

Mining activity in the Butte area showed a substantial increase over the previous year. Copper production totaled 96,898 tons in 1956, an increase of 15,356 tons over the 1955 total, while zinc production amounted to 71,865 tons, up 3,277 tons over the previous year.

One of the major factors in the increased copper production was the Anaconda Company's new Berkeley Pit, which reached a high level of production in 1956 and which is expected to reach its maximum production of 17,500 tons per day in mid-1957. This open-pit mining operation for the recovery of low-grade copper ore utilizes huge electric shovels.

Lumber, manufacturing and the tourist industry continued to record steady gains during the year. The agriculture and livestock industry continued to be a major factor in the State's economy, representing 46 per cent of the total value of production. The value of farm crops in 1956 amounted to $281,520,000, while livestock and livestock products accounted for $155,-247,000 of value.

Department store sales, a good indicator of retail trade activity, were up 5 per cent over 1955 levels.

Montana's 1956 population was estimated by the Montana Bureau of Vital Statistics at 675,000, an increase of 15,000 over the 1955 figure.

Billings and Great Falls continued to lead the State in population increases. The 1956 population of Billings was estimated at 63,338, up nearly 5 percent over the previous year, while Great Falls recorded 59,133 residents, also an increase of 5 per cent in the past year.

Other population leaders, all with increases over the previous year, are Butte, 52,486; Missoula, 37,240, and Helena, 25,178. All of these cities are in The Montana Power Company's service area.

Timber-r-r-r: Thousands of square miles of marketable forests attract new industry to Montana Power system

Eat More Beef: Montana's thriving cattle industry provides meat for nation's tables. This ranch is in Bitterroot Valley

FIVE YEARS AT A GLANCE

	1956	1955	1954	1953	1952
Electric Revenues	$28,786,664	$26,828,967	$23,424,381	$23,758,938	$23,252,839
Natural Gas Revenues	$ 9,854,723	$ 9,703,290	$ 6,918,447	$ 6,932,157	$ 7,001,230
Other Revenues	$ 525,797	$ 568,204	$ 542,064	$ 530,220	$ 527,324
Total Operating Revenues	$39,167,184	$37,100,461	$30,884,892	$31,221,315	$30,781,393
Operating Expenses	$12,949,793	$12,119,834	$10,363,683	$10,588,046	$ 9,677,765
Taxes	$11,748,512	$11,175,508	$ 8,887,149	$ 8,823,297	$ 9,335,205
Income Available for Common Stock	$ 8,020,981	$ 7,511,339	$ 6,281,218	$ 6,491,303	$ 6,681,476
Income per Share of Common	$ 3.23	$ 3.02	$ 2.53	$ 2.62	$ 2.69
Dividends per Share of Common	$ 1.80	$ 1.65	$ 1.60	$ 1.60	$ 1.40
Total Electric Consumers*	141,143	137,238	132,744	129,229	125,476
Electric Sales, KWH (000's)*	3,576,169	3,365,435	2,820,000	3,001,234	2,909,264
Natural Gas Customers*	51,465	45,258	43,547	37,043	36,136
Gas Sales, MCF*	32,794,485	32,769,011	22,824,468	22,888,430	23,262,727
Residential Electric Service:					
Customers	120,921	117,332	113,234	110,240	106,884
Annual Use per Customer, KWH	3,471	3,241	2,942	2,672	2,519
Cost per KWH	2.19¢	2.24¢	2.33¢	2.40¢	2.44¢
Generating Capability, KW	611,000(1)	586,000	586,000 (2)	526,000 (3)	476,000

* Excludes Interdepartmental.

(1) Includes 25,000 KW under firm purchase contract with Bureau of Reclamation.

(2) Kerr unit No. 3 completed in 1954.

(3) Includes 50,000 KW under firm purchase contract with Bonneville Power Administration.

STOCK OWNERSHIP

The steady gain in Montana ownership of the stock of The Montana Power Company, which has been apparent in past years, continued during 1956, and 35 out of every 100 stockholders at the present time are residents of this State. The gain was notable in common stock ownership, 890 new Montana shareholders having been added in the last five years.

At the end of 1956, the Company had 32,886 shareholders, of whom 11,591 lived in Montana.

COMMON STOCK	Shareholders	
*In Montana	4,648	20.5%
In 11 western states	8,979	39.7%
In other 37 states	13,495	59.6%
Outside the U. S.	155	0.7%
Total shareholders	22,629	100.0%

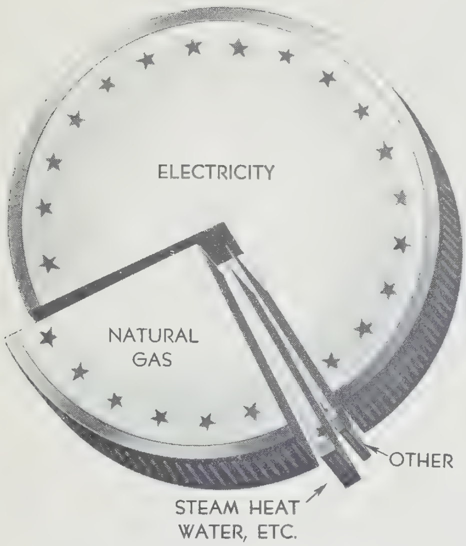
$6 PREFERRED STOCK		
*In Montana	6,738	67.8%
In 11 western states	8,882	89.5%
In other 37 states	1,016	10.2%
Outside the U. S.	33	0.3%
Total shareholders	9,931	100.0%

$4.20 PREFERRED STOCK		
*In Montana	205	62.9%
In 11 western states	234	71.8%
In other 37 states	92	28.2%
Outside the U. S.	0	.....
Total shareholders	326	100.0%

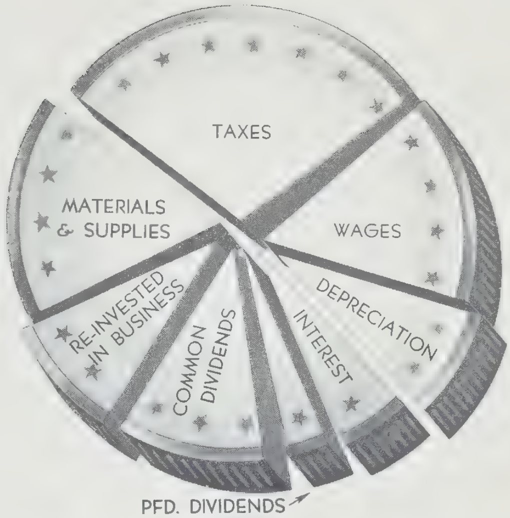
ALL COMMON AND PREFERRED		
*In Montana	11,591	35.2%
In 11 western states	18,095	55.0%
In other 37 states	14,603	44.4%
Outside the U. S.	188	0.6%
Total shareholders	32,886	100.0%

*Included in totals for 11 western states.

THE CUSTOMER'S DOLLAR . . .



. . . AND HOW IT WAS USED



SIMPLIFIED FINANCIAL STATEMENT

WE RECEIVED FROM ALL SOURCES:		
Electricity	$28,786,664	
Natural gas	9,854,723	
Steam heat, water, manufactured gas, telephone	525,797	
Net from oil operations	127,378	
From other sources—net	84,788	
A total of		**$39,379,350**
WE SPENT FOR:		
*Wages, salaries, social security contributions and pensions	$ 6,279,094	
Materials, supplies, insurance and other expenses	6,736,092	
Taxes	11,683,119	
Wear and tear on property and using up gas reserves	3,278,950	
A total of		**$27,977,255**
LEAVING A BALANCE OF		**$11,402,095**
Which was used for:		
Interest on borrowed money and other payments	$ 2,171,580	
Dividends on preferred stock	1,209,534	
Dividends on common stock	4,466,997	
A total of		**$ 7,848,111**
REMAINING AND RE-INVESTED IN THE BUSINESS		**$ 3,553,984**

*An additional amount was paid in salaries, wages and social security contributions, principally for construction, of $1,510,568

MAKING A TOTAL FOR WAGES, SALARIES, SOCIAL SECURITY CONTRIBUTIONS AND PENSIONS OF **$7,789,662**

CONSOLIDATED BALANCE SHEET . . . .

. . . ASSETS

	December 31 1956	December 31 1955
PROPERTY AND PLANT (Note 2):		
Utility properties—		
Electric	$124,851,494	$118,827,984
Natural gas	66,859,621	56,910,185
Other	2,963,115	3,348,257
Other physical property	1,812,237	1,775,770
Electric plant acquisition adjustments	5,086,428	5,086,428
	$201,572,895	$185,948,624
CURRENT ASSETS:		
Cash	$ 3,371,585	$ 3,229,246
Temporary cash investments (at cost, which approximates market)		3,934.862
Accounts receivable, less allowance of $108,068 and $105,502 respectively for doubtful accounts	4,446,711	4,324,790
Due from employees under stock purchase agreements	141,403	106,287
Materials and supplies (at average cost)	1,528,070	1,190,989
Prepayments and other assets	519,171	286,834
	$ 10,006,940	$ 13,073,008
DEFERRED DEBITS:		
Preliminary survey and investigation charges	$ 767,346	$ 590,360
	$212,347,181	$199,611,992

. . . LIABILITIES

	December 31 1956	December 31 1955
CAPITALIZATION:		
Stockholders' investment (Note 2)—		
Capital stock (Note 4):		
Preferred	$ 21,983,500	$ 21,983,500
Common	50,000 000	31,000,000
Discount and expense on capital stock	(866,417)	(866,417)
Earnings retained for use in the business (Notes 1 and 2)	4,484,120	19,977,237
	$ 75,601,203	$ 72,094,320
Long-term debt (Note 5)	68,688,000	69,188,000
	$144,289,203	$141,282,320
CURRENT LIABILITIES:		
Notes payable to banks	$ 5,500,000	$
Non-interest bearing long-term contract—portion due within one year	500,000	500,000
Dividends payable on preferred and common stock	1,419,133	1,419,133
U. S. and Canadian taxes on income, estimated	7,432,008	8,104,028
Other taxes	1,738,777	1,618,157
Accounts payable and other liabilities	2,032,605	1,425,380
	$ 18,622,523	$ 13,066,698
DEFERRED CREDITS:		
Customers' advances for construction	$ 276,151	$ 192,176
Unamortized premium less expense on outstanding debt	141,594	146,876
	$ 417,745	$ 339,052
RESERVES:		
Property depreciation, retirements and depletion	$ 38,269,368	$ 35,386,491
Amortization of electric plant acquisition adjustments (Note 2)	4,075,225	3,736,130
Gas rate increase subject of litigation, less estimated federal taxes on income (Note 3)	2,099,639	1,417,910
Injuries and damages, employees provident and other	1,361,797	1,291,764
	$ 45,806,029	$ 41,832,295
CONTRIBUTIONS BY CUSTOMERS FOR CONSTRUCTION OF PROPERTY	$ 3,211,681	$ 3,091,627
	$212,347,181	$199,611,992

CONSOLIDATED STATEMENT OF INCOME

AND EARNINGS RETAINED FOR USE IN THE BUSINESS
THE MONTANA POWER COMPANY AND SUBSIDIARIES

	Year Ended December 31 1956	1955
Operating Revenues:		
Electric	$ 28,786,664	$ 26,828.967
Natural gas (Note 3)	9,854,723	9,703,290
Other	525,797	568,204
	$ 39,167,184	$ 37,100,461
Operating Expenses and Taxes:		
Operation	$ 10,566,690	$ 10,216,502
Maintenance	2,383,103	1,903,332
Depreciation, retirements and depletion	3,278,950	2,902,179
U. S. and Canadian taxes on income, estimated	8,431,259	8,171,411
Less—portion of U. S. taxes on income applicable to gas rate increase subject of litigation (Note 3)	(738,539)	(771,130)
Other taxes	4,055,792	3,775,227
	$ 27,977,255	$ 26,197,521
Net Operating Income	$ 11,189,929	$ 10,902,940
Nonoperating Income (net)	212,166	166,803
Gross Income	$ 11,402,095	$ 11,069,743
Deductions:		
Interest on first mortgage bonds and debentures	$ 1,899,155	$ 1,899,155
Amortization of premium and expense on debt (net)	(5,282)	(4,889)
Interest charged to construction	(171,162)	(32,855)
Other interest and deductions	109,774	148,364
Amortization of electric plant acquisition adjustments	339,095	339,095
	$ 2,171,580	$ 2,348,870
Net Income	$ 9,230,515	$ 8,720,873
Earnings Retained for Use in the Business at Beginning of Year	19,977,237	16,560,645
Deduct—		
Dividends (cash):		
Preferred Stock—$6.00 Series	(957,534)	(957,534)
$4.20 Series	(252,000)	(252,000)
Common stock—$1.80 and $1.65 per share respectively	(4,466,997)	(4,094,747)
Adjustment resulting from review by Federal Power Commission of claimed project cost	(47,101)	
Transfer to common stock (Note 4)	(19,000,000)	
Earnings Retained for Use in the Business at End of Year (Notes 1 and 2)	$ 4,484,120	$ 19,977,237

NOTES TO FINANCIAL STATEMENTS

NOTE 1—The consolidated financial statements include the accounts of all wholly-owned subsidiaries. The book value of underlying net assets of the subsidiaries at December 31, 1956 exceeded the cost of investment in the subsidiaries by $1,590,959, representing undistributed net income of Canadian subsidiaries earned since acquisition and included in earnings retained for use in the business. No provision has been made for taxes on income which may be payable on future distributions of the net earnings retained by the subsidiaries. The net current assets of the Canadian subsidiaries are expressed in United States dollars at the year-end rate of exchange; other assets and liabilities are expressed at rates prevailing at the time of the transactions. The nominal unrealized gain from translation of Canadian currency is included in other reserves.

NOTE 2—The Company's electric utility accounts, upon which the accompanying financial statements are based, are now kept in accordance with the requirements of the Federal Power Commission (in the light of the decision in Arkansas Power & Light Company et al v. Federal Power Commission) and published annual reports since 1951 are on this basis. The Federal Power Commission's requirements, among other things, caused downward adjustments of utility plant accounts for items which, according to an order of the Public Service Commission of Montana and in the opinion of the Company, were carried at legitimate corporate cost and are of continuing value. A separate set of accounts, in order to comply with the statutes of the State of Montana, is kept to reflect the requirements of the Public Service Commission of Montana. If those requirements, rather than the requirements of the Federal Power Commission as to reclassification of utility plant and related accounts, were effectuated in the accounts set forth in the accompanying balance sheet as of December 31, 1956, the effect would be as follows:

ACCOUNT AFFECTED	Increase (Decrease)
Utility Plant	$ 16,435,228
Other Physical Property	117,613
Discount on Capital Stock	(500,000)
	$ 16,052,841
Reserve for Property Depreciation and Retirement	$ (147,488)
Reserve for Amortization of Limited Term Investments	38,610
Reserve for Amortization of Electric Plant Acquisition Adjustments	(3,944,097)
Capital Surplus	16,206,412
Earnings Retained for Use in the Business	3,899,404
	$ 16,052,841

The Company's other properties are stated substantially at original cost.

NOTE 3—The Public Service Commission of Montana issued an order granting the Company a gas rate increase, effective with billings of September 1, 1953. The Attorney General of Montana filed a lawsuit contesting the increase, and such suit is now before the Supreme Court of Montana for decision. The court in which the suit was filed, pending final decision in the matter, ordered the Company to create a reserve into which will be credited the increase applicable to deliveries of gas after November 2, 1953. In compliance with the order of the court the Company at December 31, 1956 had credited $4,374,248 to the reserve and excluded this amount from revenues. Estimated federal income taxes of $2,274,609, attributable to such amount, have been deducted from the reserve in the balance sheet.

NOTE 4—Capital stock consists of the following:

Preferred stock (cumulative, no par value):		
Authorized 300,000 shares		
Outstanding:		
$6.00 Series	159,589 shares	$ 15,958,900
$4.20 Series	60,000 shares	6,024,600
		$ 21,983,500
Common (no par value):		
Authorized 3,750,000 shares		
Outstanding	2,481,665 shares	$ 50,000,000

The stated value of common stock was increased to $50,000,000 by transfer, authorized by Board of Directors, of $19,000,000 from earnings retained for use in the business.

The preferred stock is redeemable at option of the Company on thirty day notice at $110 per share for the $6 series and at $106.50 per share before May 1, 1959 (decreasing to $103 thereafter) for the $4.20 series, plus accumulated dividends. The liquidation price of preferred shares is $100 plus accumulated dividends.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Board of Directors may, within a period of five years from June 16, 1954, authorize the grant of options to officers and other key employees to purchase unissued shares of the no par common stock of the Company, not to exceed a total of 100,000 shares. Such options shall be at not less than 95% of the closing price on the New York Stock Exchange on the date the options are granted and may not extend for a period of more than ten years. At December 31, 1956 options on 45,975 shares had been granted and options on 1,100 shares had been tendered but not accepted at that date, to seventy-two officers and employees exercisable during or after 1957.

NOTE 5—Long-term debt consists of the following:

First mortgage bonds:	
2-⅞% Series, due 1975	$ 39,188,000
3-⅛% Series, due 1984	6,000,000
3-¼% sinking fund debentures due 1979	18,000,000
Non-interest bearing contract, $500,000 due annually (excludes portion due within one year)	5,500,000
Total, December 31, 1956	$ 68,688,000
1956 instalment on above contract	500,000
Total, December 31, 1955	$ 69,188,000

The agreement securing the 3-¼% debentures due 1979, provides that the Company must deliver to the trustee, as a sinking fund for the retirement of debentures, $360,000 for each year beginning 1958 to and including 1970 and $540,000 each year thereafter to and including 1978. Sinking fund requirements under the First Mortgage Bonds are being met through property additions.

Provisions of long-term debt agreements do not impose at December 31, 1956 any restrictions on the availability of retained earnings for payment of dividends.

PRICE WATERHOUSE & CO.

AMERICAN BANK BUILDING
PORTLAND 5, OREGON

February 1, 1957

To the Board of Directors of
The Montana Power Company

In our opinion, the accompanying statements, together with the notes thereto, present fairly the consolidated financial position of The Montana Power Company and its subsidiaries at December 31, 1956 and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

THE COVER: Lake McDonald in beautiful Glacier National Park, a million-acre playground in Montana.

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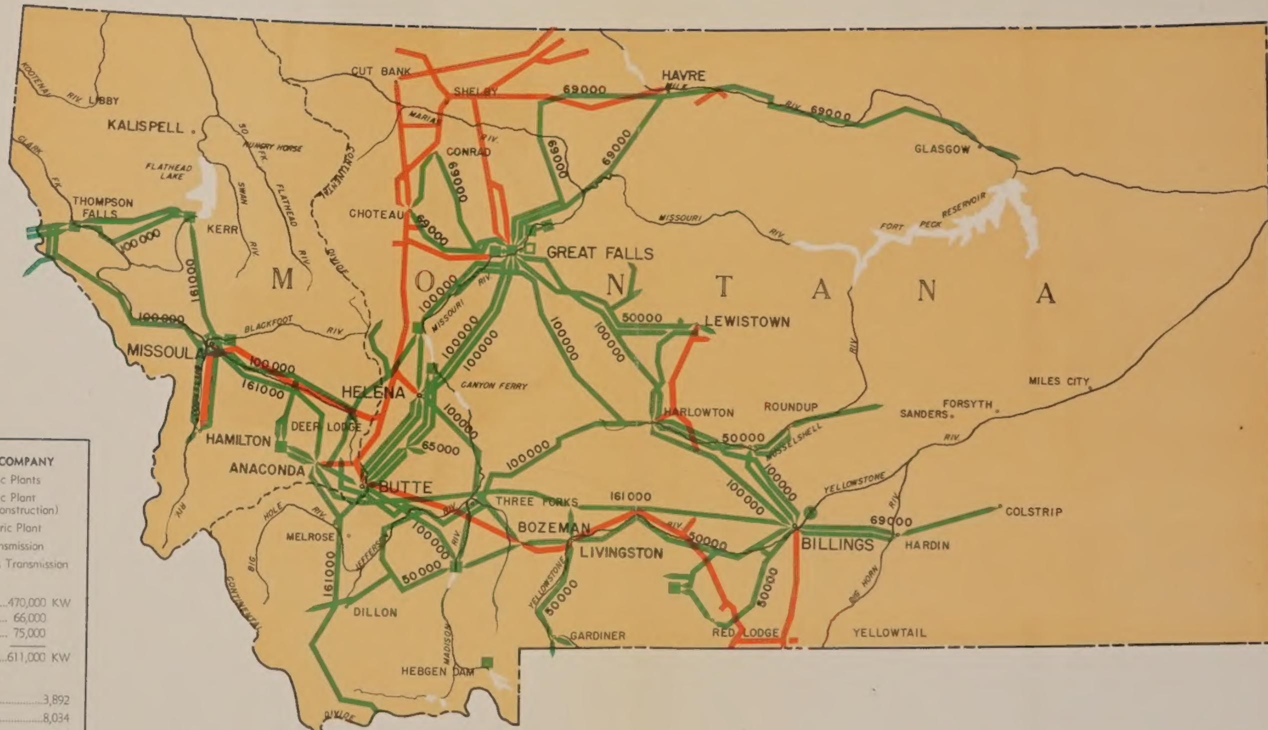
SYSTEM MAP



THE MONTANA POWER COMPANY

- Hydroelectric Plants
- Hydroelectric Plant (Under Construction)
- Steam-Electric Plant
- Electric Transmission
- Natural Gas Transmission

GENERATION

Hydroelectric Capability	470,000 KW
Steam-Electric Capability	66,000
Firm Purchase Contracts	75,000
Total System Capability	611,000 KW

MILES OF LINE

Electric Transmission	3,892
Electric Distribution	8,034
Natural Gas Transmission	1,224
Natural Gas Distribution	781

MONTANA POWER